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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ira Fishman
Chief Executive Officer

January 30, 1998

Honorable Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW
Washington, DC 20054

RE: Schools and Libraries Corporation
Program Size Projections for Second Quarter 1998
CC Docket Nos. 96-45, 97-21

Dear Secretary Salas:

In accordance with 47 C.F.R. § 54.709(a)(3), enclosed are the original and four (4) copies of the Second Quarter 1998 Program Size Projections for the Schools and Libraries Universal Service Program.

Acknowledgment and date of receipt of this letter is requested. A duplicate copy has been provided for that purpose.

Respectfully submitted,

Ira Fishman
Chief Executive Officer

Enclosure

Board of Directors

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Schools & Libraries
Corporation
City Librarian
San Mateo Public Library

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Council of Chief State School Officers
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Superintendent Educational
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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

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JAN 30 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

**Schools and Libraries Universal Service Program
Program Size Projections for Second Quarter 1998
CC Docket Nos. 96-45, 97-21**

I. Introduction

The Schools and Libraries Corporation (SLC or Corporation) hereby submits this filing in accordance with section 54.709(a)(3) of the Federal Communications Commission's (FCC or Commission) rules.¹ This filing details program size projections for second quarter 1998 for the Schools and Libraries Universal Service Program.

Companies that offer eligible discounted services to eligible schools and libraries are to receive funds in accordance with the Commission's rules beginning January 1, 1998. The Commission directed the Corporation to establish a "window period" for filing Schools and Libraries Universal Service Program applications during which all applications will be treated as if received simultaneously.² The window period begins today -- the day the SLC Web Site is becoming operational and the Corporation is beginning to receive applications for services on-line. The Schools and Libraries Corporation has decided that all applications filed during an initial 75-day window will be treated as if simultaneously received. All completed applications

¹ 47 C.F.R. § 54.709 (a)(3).

² Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Third Report and Order*, 62 Fed. Reg. 56118 (October 29, 1997).

and funding requests (FCC Forms 470 and 471)³ received from the first through the 75th day will be treated as if they were received on the same day.⁴ It may take seven additional days to enter forms received near the end of the window into the system. A properly completed Form 471, with its certification, must be received by the end of the 75th day in order to be included within the window. In addition, a Form 471 will only be processed during this 75-day window if the corresponding Forms 470 have been properly submitted at least 28 days earlier.

II. Schools and Libraries Universal Service Program

The Commission's May 8, 1997, Universal Service Order⁵ outlined a plan to ensure that all eligible schools, libraries⁶ and rural health care providers have affordable connections to the global telecommunications network. The plan created a support mechanism to provide telecommunications services and to wire schools and libraries for access to the Internet. Pursuant to the Commission's rules,⁷ this program is capped at \$2.25 billion per funding year.

³ FCC Form 470, Description of Services Requested and Certification; FCC Form 471, Services Ordered and Certification.

⁴ The funding commitment decision is made based on the information contained in FCC Form 471. Therefore, it is essential that completed requests for funding commitments (FCC Form 471) be received within the seventy-five day window to be considered as simultaneously received.

⁵ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Report and Order*, 12 FCC Rcd 8776 (1997) (Universal Service Order).

⁶ The term "school" includes individual schools, school districts, and consortia of schools and/or school districts. The term "library" includes individual library branches, library facilities, library systems, and library consortia.

⁷ See 47 C.F.R. § 54.507(a).

The Commission appointed the National Exchange Carrier Association (NECA) to temporarily administer, through an independent, non-profit subsidiary, billing and collection for support mechanisms which will fund the universal service programs. The Commission ordered NECA to incorporate an independent, non-profit subsidiary to perform these duties, the Universal Service Administrative Company (USAC), and to incorporate two, non-profit, unaffiliated corporations, the Schools and Libraries Corporation and the Rural Health Care Corporation (RHCC).

USAC will administer, temporarily, the universal service support mechanisms for high cost areas and low-income consumers, as well as billing, collection and disbursement functions for schools, libraries and rural health care providers. SLC will provide all other Schools and Libraries Universal Service Program functions, such as administering the application process, creating and maintaining a web site to post service applications, and performing outreach and public education functions needed to administer the schools and libraries program.

Pursuant to the Universal Service Order and the Third Order on Reconsideration⁸, the collection cap is \$325 million for the second quarter of 1998.⁹ This amount includes second

⁸ CC Docket No. 96-45, FCC 97-411 (rel. December 16, 1997).

⁹ Universal Service Order at para. 532. Because there is no historical data to accurately estimate demand for the first year of this program, the Commission directed the administrator to collect \$300 million for the first quarter of 1998 and to adjust future contribution assessments quarterly based on its evaluation of schools and libraries demand for funds, within the limits of the collection caps of \$1 billion for the period January 1, 1998 to June 30, 1998 and \$2.25 billion for the calendar year 1998. In the Third Order on Reconsideration, the Commission adjusted the collection cap for the first six months of 1998 because it concluded from what it had learned about the status of preparatory arrangements being made by schools and libraries that there is no reason to believe the demand will reach the maximum projection levels during the initial implementation stages of the program. The Commission amended the collection cap for the first six months of 1998 to \$625 million.

quarter 1998 expenses and funding for the Schools and Libraries Universal Service Program.

There will also be a credit offset for interest earned on funds between collection and contribution dates.

Expenses and interest income for the second quarter 1998 are estimated as follows

(amounts in thousands):

2Q 1998 Expenses	\$4,160
Expenses from USAC	231
Interest Income	<u>(1,796)</u>
Total	<u>\$2,595</u>

This will provide funding for the program during the second quarter of \$322.4 million.

Exhibit 1 shows the detail behind the second quarter estimate.

III. Change to SLC 1998 Budget Estimate Since October 31, 1997, Filing

NECA filed the Schools and Libraries Fund Size Requirements for First Quarter 1998 with the FCC on SLC's behalf on October 31, 1997. NECA noted in a December 2 letter to Congress that the October budget estimate was developed in a matter of days. At that time, SLC had no employees. That filing included a 1998 SLC budget estimate of \$7.8 million and an estimate for the first quarter of \$1.9 million. NECA made those estimates without a good sense of the likely demand for the program and without a detailed plan for program implementation. The estimates assumed only minimal procedures for data review to protect against waste, fraud, and abuse and an unacceptable level of customer service support. It also did not properly account for the level of effort needed for two full cycles of application processing in 1998 (for funding years 1998 and 1999) or for processing of service provider invoices.

The October estimate also did not distinguish between costs for SLC's own operations and those of SLC's contractors. Exhibit 1 does make that distinction, and we will continue to separate those elements of total program costs in all future reports.

The November 25 joint letter from the Board Chairs of the SLC, the RHCC, and the USAC to FCC Chairman William Kennard providing information in response to a series of questions Senator Conrad Burns had posed to the FCC made the point that: "The overall budget and staffing for the SLC is still under development as NECA and SLC refine their planning regarding the anticipated volume of applications, the need for customer service support, and the internal controls that must be put in place. . . . The preliminary estimate for 1998 operations is \$7.8 million, but this estimate is based upon the unrefined assumptions about the application volumes, customer service, and the internal audit and other quality controls that the SLC will apply to the application review process."

SLC expenses for 1998 and for this year's first quarter will be higher than the October 31 estimates. We will not be able to provide final, definitive estimates until the program is in full operation. Until we have substantial experience with schools and libraries submitting their Forms 470 and then filing their Forms 471, we will not know how many applications we will receive, how much assistance schools and libraries will need in filling in their applications, or how large the total funding commitment will need to be. We will inform the FCC of our first quarter costs as soon as we have actual figures, and we will continue to try to develop a reliable full-year estimate for subsequent quarterly filings.

Even though we will not have a reliable estimate of SLC 1998 expenses until we have substantial experience receiving applications, we believe expenses will be higher than the October 31 estimate for four primary reasons:

1. Better Understanding of the Requirements for Web Site Development

In October it was assumed that only \$250 thousand would be required in 1998 for the Web Site -- basically, just maintaining the Site as it had been developed in 1997, which was presumed to be only for data entry with no allowance for system edits or other analysis of data to ensure program integrity. In fact, the continuing costs for development in 1998 are now estimated at \$527 thousand because the performance requirements of this interactive Web Site were refined in November and December, extending and expanding the scope of development work. The Web Site is expected to be able to handle 1,000 users simultaneously with no degradation in performance. And, more important, the Web Site will enable efficient review of the applications to monitor compliance with FCC rules. In addition, some \$500 thousand will be required for system enhancements in the second quarter of 1998. These enhancements will address important requirements that were deferred in 1997 in an effort to make the Site available to applicants at the earliest possible date. The enhancements will also address potential changes to the Forms 470 and 471 as a result of customer feedback.

2. Establishment of Standards for Client Service Delivery and Refined

Estimate of Demand for Such Service

Since the October 31 estimate of 1998 expenses, SLC has established standards for performance of the client service function, including the percentage of calls to the Bureau that are answered live and the turnaround time on data entry for forms. SLC and NECA have and continue to prepare and conduct training for Client Service Representatives to ensure a high level of quality in client service. Also, since October, the forms were finalized and we initiated extensive outreach so that we have a better idea of the level of support applicants will seek from the Bureau. The October 31 budget estimate assumed \$430 thousand in 1998 for Client Service Bureau entry of data from mailed forms to on-line applications and identified no funding specifically for focused client service. Now that we know more about the forms and the issues that may arise in entering data on the Web Site, we estimate the cost for focused client service in Iowa City will be \$1.2 million, not including the costs of the higher level client service provided from Whippany, New Jersey. That assumes 51,400 calls during 1998 at 7 minutes each with a 95 percent live answer objective; 4,300 faxed inquiries; 68,600 Forms 470/471 requiring data input; and data entry for 100,000 Forms 486 and 675,000 invoices, with a two-day turnaround objective. During the week of January 19, the Client Service Bureau in Iowa City handled 2,060 calls, averaging 5 minutes each, with a 98.9 percent live answer rate. From the opening of the Client Service Bureau

on December 11, 1997, through Tuesday, January 27, 1998, we handled more than 9,400 calls. Three hundred and nine Form 470s were received, bringing the total to 788 since the Bureau opened, which will be entered on-line now that the Web Site is operational.

3. Program Integrity Assurance

The October budget estimate had no specific funding for process review (an internal control function to check information provided by applicants to be sure that it is accurate, that applicants and services are eligible for discounts, and that appropriate discount levels have been applied). Our current estimate includes \$4.9 million for a comprehensive process review function that will be staffed with some 41 NECA employees, who will spend about 40 percent of their time on review of outlier data during processing of applications and 60 percent to conduct an estimated 9,000 detailed reviews. The October estimate also had no funds for an independent assessment of the effectiveness of internal controls to prevent waste, fraud, and abuse in the program. The FCC requested such an assessment, and the SLC Board of Directors approved it. The current estimate includes \$500 thousand to pay the independent auditor to complete its work on this assessment in 1998. For Program Integrity Assurance, as for Client Service, an ongoing training program is critical and underway.

4. Inclusion of Costs for Processing Forms 486 and Service Provider Invoices

With a clearer understanding of the data processing requirements for the *Receipt of Service Notification Form* (the Form 486) and of invoices that will be submitted by service providers for the discounted prices of approved services, we recently increased the 1998 estimate for the Client Service Bureau in Iowa City by \$1.1 million for this data processing.

Administrative Budget as Percent of Total Program

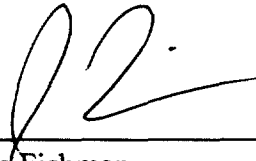
The growth in the budget estimate since October has been for additional work to protect the program from waste, fraud, and abuse and to make the program as simple for the schools and libraries to access as possible. Even with the growth, SLC's current estimate of its program delivery budget is significantly less than 1.0 percent of the program ceiling for 1998 -- and this for a year when the SLC will incur substantial non-recurring start-up costs and will go through two complete cycles of processing applications, for funding years 1998 and 1999.

SLC's actual staff costs and expenses represent less than one-fifth of the total estimate for administration, program development, application and invoice review and processing, and client service. We currently have 12 employees, and our budget projects no more than 20 staff members. Our staff will remain lean. For efficiency, we are relying on NECA and other outside, private entities to perform the bulk of the day-to-day operations.

IV. Next Filing

Pursuant to the Commission's rules,¹⁰ the next filing will be on or before April 30, 1998. That filing will detail fund size requirements for third quarter 1998 for the Schools and Libraries Universal Service Program.

Respectfully submitted,



Ira Fishman
Chief Executive Officer
Schools and Libraries Corporation
1023 15th Street, N.W.
Washington, DC 20005

January 30, 1998

¹⁰ See 47 C.F.R. § 69.620(b).

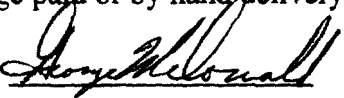
Exhibit 1

**Schools & Libraries Corporation
Second Quarter 1998 Budget Estimate
(Amounts in thousands)**

SLC Operating	
Compensation & Benefits	\$460
Travel	22
Insurance	34
Outreach and Client Support	27
Board Expenses	9
Taxes	3
Contingency	<u>60</u>
Total	\$615
Non-Recurring Start-Up	\$750
NECA Operating	<u>\$2,795</u>
Total	<u><u>\$4,160</u></u>
Expenses SLC	\$4,160
Expenses from USAC	231
1997 Start up Expenses from NECA	--
Interest Income SLC	<u>(1,796)</u>
Total	<u><u>\$2,595</u></u>
Program Collection	\$325,000
Administration Expense Projection	<u>2,595</u>
Funds for Program	\$322,405

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served this 30th day of January 1998, by mailing copies thereof by United States Mail, first class postage paid or by hand delivery, to the persons listed below.

By: 
George McDonald
SLC Director of Operations

The following parties were served:

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